

1-1-1995

# Checklists and illustrative financial statements for employee health and welfare benefit plans : a financial accounting and reporting Practice aid, May 1995 edition

American Institute of Certified Public Accountants. Technical Information Division

Arthur R. Kappel

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## Recommended Citation

American Institute of Certified Public Accountants. Technical Information Division and Kappel, Arthur R., "Checklists and illustrative financial statements for employee health and welfare benefit plans : a financial accounting and reporting Practice aid, May 1995 edition" (1995). *Industry Guides (AAGs), Risk Alerts, and Checklists*. 832.

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# **AICPA**

**MAY 1995  
EDITION**

## ***Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans***

*A Financial Accounting and  
Reporting Practice Aid*

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## *Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans*

*A Financial Accounting and  
Reporting Practice Aid*

*Edited by  
Arthur R. Kappel, CPA  
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for  
Employee Health and Welfare Benefit Plans has not  
been approved, disapproved, or otherwise acted upon  
by any senior technical committees of the American  
Institute of Certified Public Accountants or the Financial  
Accounting Standards Board and has no official or  
authoritative status.*

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JUL 14 1995

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# **FSP Section 26,000**

## **CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH AND WELFARE BENEFIT PLANS**

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for Audits of Health and Welfare Benefit Plans are not included in this document.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists have been updated to include relevant pronouncements through AICPA Statement on Auditing Standards No. 74, FASB Statement of Financial Accounting Standards No. 121, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position No. 95-1, AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1995), AICPA Practice Bulletin No. 13, and EITF consensuses adopted up to and including the March 23, 1995, Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists and illustrative financial statements do not represent minimum requirements. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.02 Users of the financial checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

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**Note:** This publication was extracted from sections 26,000 through 26,500 of the *AICPA Financial Statement Preparation Manual* (FSP).

# FSP Section 26,100

## *Introduction*

### **Description**

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Health and welfare benefit plans include plans that provide:

- Medical, dental, visual, psychiatric, or long-term health care; life insurance (offered separately from a pension plan); certain severance benefits; or accidental death or dismemberment benefits.
- Benefits for unemployment, disability, vacations, or holidays.
- Other benefits such as apprenticeships, tuition assistance, day care, dependent care, housing subsidies, or legal services.

.02 Defined-benefit health and welfare plans specify a determinable benefit, which may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services. Such plans may also include benefits that are payable in a lump sum, such as death benefits. The level of benefits may be defined or limited based on factors such as age, years of service, and salary. Contributions may be determined by the plan's actuary or be based on actual claims paid or other factors determined by the plan's sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (e.g., a collectively bargained multiemployer plan), such a plan may nevertheless be a defined-benefit health and welfare plan if its substance is to provide a defined benefit.

.03 Defined-contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits of a plan participant are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements.

.04 Plan participants may be active or terminated employees (including retirees), as well as covered dependents and beneficiaries, of a single employer or group of employers. Employer contributions may be voluntary or required under the terms of a collective bargaining agreement negotiated with one or more labor organizations. Plans may require contributions from employers and participants (contributory plans) or from employers only (noncontributory plans). During periods of unemployment, a noncontributory plan may require contributions by participants to maintain their eligibility for benefits. Benefits may be provided through insurance contracts paid for by the plan (an insured plan), from net assets accumulated in a trust established by the plan (a self-funded plan), or both.

.05 A health and welfare plan may process benefit payments directly or it may retain a third-party administrator. In either case, a plan that is fully or partially self-funded is obligated for the related benefits.

### **Regulatory Requirements**

.06 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The report of most significance to the auditor is the annual



report. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-Agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

## **Financial Accounting and Reporting Standards**

.08 The AICPA Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, establishes generally accepted accounting principles for health and welfare benefit plans. The AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*, provides guidance on auditing and reporting on the financial statements of employee benefit plans. Plans that have adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4A of the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*. Plans that have not adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4B of the guide.

.09 The AICPA Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, specifies the accounting and reporting for health and welfare plans for investment contracts. This SOP is effective for financial statements for plan years beginning after December 15, 1994, except that the application of this SOP to investment contracts entered into before December 31, 1993, is delayed to plan years beginning after December 15, 1995.

.10 FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, does not apply to health and welfare benefit plans. However, the methods of valuing plan investments and the requirements for financial statement disclosures are generally the same as those specified in SFAS 35.

## **Accounting and Reporting by Health and Welfare Benefit Plans**

.11 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year.
- A statement of changes in net assets available for benefits for the year then ended.
- Information regarding the plan's benefit obligations as of the end of the plan year.
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations.

.12 Information regarding the benefit obligations may be presented on the face of one or more financial statements. Note disclosure is not appropriate.

.13 The financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits of the plan as of the end of the plan year.
- A statement of changes in net assets available for benefits of the plan for the year then ended.

.14 Because a defined-contribution plan's obligation to provide benefits is limited to the amounts accumulated in an individual's account, information regarding benefit obligations is not applicable.

.15 Plan investments should be reported at their fair value except a defined-contribution health and welfare plan should report investment contracts with fully benefit-responsive features (as defined in SOP 94-4) at contract value and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.16 Whether or not a plan is subject to ERISA, insurance contracts are to be included in plan assets in the manner required by ERISA's annual reporting requirements and are to be reported in a manner consistent with the requirements of DOL Form 5500 or 5500-C.

.17 In addition to the reporting requirements of SOP 92-6 (and chapters 4A and 4B of the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*, as appropriate) health and welfare benefit plans may have reporting requirements under ERISA. Schedules required by ERISA include assets held for investment purposes, transactions with parties in interest, loans or fixed-income obligations due that are in default or uncollectible, leases in default or uncollectible, and reportable transactions.

## **Transition**

.18 SOP 92-6 is effective for audits of financial statements of single employer plans for plan years beginning after December 15, 1992, except that the application of SOP 92-6 to plans of single employers with no more than 500 participants in the aggregate is effective for plan years beginning after December 15, 1994. SOP 92-6 is effective for audits of financial statements of multiemployer plans for plan years beginning after December 15, 1995. Earlier application is encouraged.

**Note:** If the benefit plan has not yet adopted SOP 92-6, all applicable questions in the checklist should be completed except those marked with an asterisk (\*). If the benefit plan has adopted SOP 92-6, all applicable questions in the checklist should be completed.

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# FSP Section 26,200

## *Checklists—General*

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position, and EITF consensuses. Some checklists also include references to FASB Interpretations and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements,” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

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# FSP Section 26,300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

### .02 Explanation of References:

|         |   |
|---------|---|
| AAG =   | AICPA Audit and Accounting Guide, <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1995) |
| SFAS =  | FASB Statement of Financial Accounting Standards  |
| FASBI = | FASB Interpretation   |
| APB =   | AICPA Accounting Principles Board Opinion   |
| ARB =   | AICPA Accounting Research Bulletin  |
| SOP =   | AICPA Statement of Position   |
| AC =    | Reference to section number in FASB <i>Accounting Standards—Current Text</i>  |
| SAS =   | AICPA Statement on Auditing Standards   |
| AU =    | Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)   |
| ERISA = | Employee Retirement Income Security Act of 1974   |
| DOL =   | Department of Labor   |
| CFR =   | Code of Federal Regulations   |

### .03 Checklist Questionnaire

|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| <b>General</b>  |            |           |            |
| <b>A. Financial Statements</b>  |            |           |            |
| 1. For a full presentation in conformity with generally accepted accounting principles (GAAP), do the financial statements include:   |            |           |            |
| a. For Defined Benefit Health and Welfare Benefit Plans:  |            |           |            |
| (1) A statement of net assets available for benefits as of the end of the plan year?<br>[AAG, pars. 4.18 and 4.69; SOP 92-6, par. 18]   | _____      | _____     | _____      |
| (2) A statement of changes in net assets available for benefits for the year then ended?<br>[AAG, pars. 4.18 and 4.69; SOP 92-6, par. 18]   | _____      | _____     | _____      |
| (3) Information regarding the plan's benefit obligations as of the end of the plan year?<br>[AAG, par. 4.18; SOP 92-6, par. 18]   | _____      | _____     | _____      |
| (4) Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations?<br>[AAG, par. 4.18; SOP 92-6, par. 18] | _____      | _____     | _____      |
| b. For Defined Contribution Health and Welfare Benefit Plans:   |            |           |            |

\* See the note in FSP section 26,100.18.

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| (1) A statement of net assets available for benefits of the plan as of the end of the plan year?<br>[AAG, par. 4.21; SOP 92-6, par. 21]  | _____      | _____     | _____      |
| (2) A statement of changes in net assets available for benefits of the plan for the year then ended?<br>[AAG, par. 4.21; SOP 92-6, par. 21]  | _____      | _____     | _____      |
| 2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented on the face of one or more financial statements?<br>[AAG, par. 4.18; SOP 92-6, par. 18]  | _____      | _____     | _____      |
| 3. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in such reasonable detail as is necessary to identify the nature and classification of the obligations?<br>[AAG, par. 4.18; SOP 92-6, par. 18]   | _____      | _____     | _____      |
| 4. For ERISA plans, are separate reports prepared for each plan where assets of more than one plan are held in a Voluntary Employees' Beneficiary Association trust?<br>[AAG, par. 4.09; SOP 92-6, par. 09]  | _____      | _____     | _____      |
| <b>B. Comparative Financial Statements</b>   |            |           |            |
| 1. Are comparative statements considered? <sup>1</sup><br>[ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102); AAG, pars. 4.27, fn. 14 and 4.69, fn. 28; SOP 92-6, par. 17, fn. 1]  | _____      | _____     | _____      |
| 2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented repeated, or at least referred to, to the extent that they continue to be of significance?<br>[ARB 43, Ch. 2A, par. 2 (AC F43.102)]   | _____      | _____     | _____      |
| 3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?<br>[ARB 43, Ch. 2A, par. 3 (AC F43.103)]  | _____      | _____     | _____      |
| <b>C. Titles and References</b>  |            |           |            |
| 1. Are the financial statements suitably titled?<br>[SAS 62, par. 7 (AU 623.07)]   | _____      | _____     | _____      |
| 2. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statements?<br>[Generally Accepted]   | _____      | _____     | _____      |
| <b>D. Description of Health and Welfare Benefit Plan</b>   |            |           |            |
| 1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vesting, and benefit provisions?<br>[AAG, pars. 4.51 and 4.87a; SOP 92-6, par. 51; SOP 94-6, par. 10]<br><br>Note: If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that a reference to the other source is made.<br>[AAG, pars. 4.51 and 4.87a; SOP 92-6, par. 51] | _____      | _____     | _____      |
| 2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable?<br>[AAG, par. 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |

\* See the note in FSP section 26,100.18.

<sup>1</sup> ERISA requires that the "Statement of Net Assets" available be presented in comparative form. [AAG, par. 4.69, fn. 40]



|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <b>E. Disclosure of Accounting Policies</b>  |            |           |            |
| 1. Is a description of all significant accounting policies of the plan presented as an integral part of the financial statements?<br>[APB 22, par. 8 (AC A10.102)]   | _____      | _____     | _____      |
| 2. Does the disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning the recognition of revenue and the allocation of asset costs to current and future periods?<br>[APB 22, par. 12 (AC A10.105)]   | _____      | _____     | _____      |
| 3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto), so duplication of details is avoided?<br>[APB 22, par. 14 (AC A10.107)]  | _____      | _____     | _____      |
| 4. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumption(s) used to determine the fair value of investments and the reported value of insurance contracts?<br>[AAG, pars. 4.50 and 4.86a; SOP 92-6, par. 50]  | _____      | _____     | _____      |
| 5. Does the disclosure of significant accounting policies include a description of significant actuarial assumptions used to determine the plan's liabilities?<br>[AAG, pars. 4.50 and 4.86b; SOP 92-6, par. 50]<br><b>Note:</b> This disclosure requirement is similar under AAG and SOP 92-6. If the plan has adopted SOP 92-6 the phrase "plan's liabilities" should be replaced with "plan's benefit obligations". | _____      | _____     | _____      |
| 6. Does the disclosure of significant accounting policies include a description of the methods used to determine the plan's benefit obligations?<br>[AAG, par. 50; SOP 92-6, par. 50]  | _____      | _____     | _____      |
| 7. Are any significant changes in assumptions between financial statement dates described?<br>[AAG, pars. 4.50 and 4.86b; SOP 92-6, par. 50]   | _____      | _____     | _____      |
| 8. Are the effects of any significant changes in assumptions made between financial statement dates described?<br>[AAG, par. 4.50; SOP 92-6, par. 50]  | _____      | _____     | _____      |
| 9. Do disclosures include the adjustment of the assumed rates of return for administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated benefit obligations?<br>[AAG, par. 4.34, fn. 26; SOP 92-6, par. 34, fn. 13]   | _____      | _____     | _____      |
| 10. Does the disclosure of significant accounting policies include the amount and disposition of forfeited nonvested accounts? (Specifically, identification of whether those amounts will be used to reduce future employer contributions or will be allocated to participants accounts.)<br>[AAG, par. 4.53; SOP 92-6, par. 53]  | _____      | _____     | _____      |
| <b>F. Description of Plan Amendments</b>   |            |           |            |
| 1. If applicable, do disclosures include a description of significant plan amendments adopted during the period, as well as significant changes in the nature of the plan (e.g., a plan spin-off or merger with another plan) and changes in actuarial assumptions?<br>[AAG, pars. 4.51 and 4.87b; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| <b>G. Accounting Changes</b>   |            |           |            |
| 1. For a change in accounting principles, do disclosures in the period of the change include:  |            |           |            |
| a. Nature of the change?   | _____      | _____     | _____      |
| b. Justification for the change including a clear explanation of why the newly adopted accounting principle is preferable?   | _____      | _____     | _____      |

\* See the note in FSP section 26,100.18.

|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Effect on earnings of the plan?<br>[APB 20, par. 17 (AC A06.113)]  | _____      | _____     | _____      |
| 2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made?<br>[APB 20, pars. 19-22 and 25 (AC A06.115-.118 and .121)]  | _____      | _____     | _____      |
| 3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:   |            |           |            |
| a. Nature of the error in previously issued financial statements?   | _____      | _____     | _____      |
| b. Effect of its correction on the changes in the net assets available for benefits and plan benefit obligations?<br>[APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]   | _____      | _____     | _____      |
| 4. If there is a change in accounting estimate:   |            |           |            |
| a. and the change affects several future periods, is its effect on the change in net assets of the current period disclosed?<br>[APB 20, par. 33 (AC A06.132)]  | _____      | _____     | _____      |
| b. and the change has no material effect in the period of change, but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change?<br>[APB 20, par. 38 (AC A06.133)]  | _____      | _____     | _____      |
| <b>H. Related-Party Transactions</b>  |            |           |            |
| 1. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest?<br>[AAG, A.51c]   | _____      | _____     | _____      |
| <b>Note:</b> ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 50% or more of such an employer or employee association, or relatives of a person described above.<br>[AAG, A.84, fn. 28; ERISA secs. 3(14) and 406] |            |           |            |
| <b>I. Contingencies and Commitments</b>   |            |           |            |
| 1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading?<br>[SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]  | _____      | _____     | _____      |
| 2. For loss contingencies not accrued, including those related to litigation, claims, and assessments, do disclosures indicate:   |            |           |            |
| a. Nature of the contingency?   | _____      | _____     | _____      |
| b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?<br>[SFAS 5, pars. 10 and 33—39 (AC C59.109, .111 and .139—.145)]   | _____      | _____     | _____      |
| 3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible?<br>[SFAS 5, par. 10 (AC C59.109)]   | _____      | _____     | _____      |
| 4. Are gain contingencies disclosed with care to avoid any misleading implications about the likelihood of realization?<br>[SFAS 5, par. 17 (AC C59.118)]   | _____      | _____     | _____      |
| 5. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed?<br>[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2 and 3 (AC C59.114)]  | _____      | _____     | _____      |
| 6. Do disclosures include material lease commitments and other commitments?<br>[AAG, par. 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <b>J. Subsequent Events</b>  |            |           |            |
| 1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"?<br>[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04 and .07 (AU 560.03—.04 and .07)]   | _____      | _____     | _____      |
| 2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed (e.g., a decision to terminate the plan after the year end but before the year-end financial statements have been issued)?<br>[SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05—.07 and .09 (AU 560.05—.07 and .09); AAG, par. 4.59; SOP 92-6, par. 59]   | _____      | _____     | _____      |
| 3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits?<br>[AAG, pars. 4.51 and 4.87H; SOP 92-6, par 51]   | _____      | _____     | _____      |
| 4. For those unusual or infrequent events or transactions identified in step J.3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable?<br>[AAG, pars. 4.51 and 4.87H; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| <b>K. Plan Terminations</b>  |            |           |            |
| 1. If a decision has been made to terminate the plan before the end of the plan year, is this fact disclosed?<br>[AAG, par. 4.59; SOP 92-6, par. 59]   | _____      | _____     | _____      |
| <b>L. Income Tax Status</b>  |            |           |            |
| 1. Do disclosures include the federal income tax status of the plan?<br>[AAG, pars. 4.51 and 4.87; SOP 92-6, par. 51]<br><br>Note: If the Plan has not adopted SOP 92-6 and a determination letter has been obtained for a 501(c)(9) VEBA trust, the disclosure in Step L.1 above is not required.   | _____      | _____     | _____      |
| <b>M. Financial Instruments (General—see also steps for specific areas)</b><br>Note: In addition to requiring disclosures about derivative financial instruments, SFAS 119 amends existing disclosure requirements of SFAS 105 and SFAS 107. For plans with less than \$150 million in total assets in the current "Statement of Net Assets Available for Benefits," the effective date of SFAS 119 is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged. The SFAS 119 amendments to SFAS 105 and SFAS 107 disclosures are reflected below. If the plan has not adopted SFAS 119, follow the guidance set forth in the footnotes to the applicable disclosure items. See section N., "Derivatives," for SFAS 119 disclosures for derivative financial instruments. |            |           |            |
| 1. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105 (AC F25)), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument: <sup>2,3</sup>   |            |           |            |

<sup>2</sup> *Category of financial instrument* refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the plan should also describe for each category the classes of financial instruments included in that category. Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), "class of financial instrument" refers to those classifications.

<sup>3</sup> If the plan has not adopted SFAS 119, the word *category* in Steps 1. and 3. should be changed to *class*. Furthermore, the description of *category* and the requirement to disclose the classes of financial instruments included in each category if disaggregation of financial instruments is other than by class (described in footnote 2 to Step 1.) and the requirement to distinguish between financial instruments held or issued for trading purposes and those held or issued for purposes other than trading (described in Step 2.) should be disregarded.

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. The face or contract amount (or notional principal amount if there is no face or contract amount)?  | _____      | _____     | _____      |
| b. The nature and terms, including, at a minimum, a discussion of:   |            |           |            |
| (1) The credit and market risk of those instruments?   | _____      | _____     | _____      |
| (2) The cash requirements of those instruments?  | _____      | _____     | _____      |
| (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)?<br>[SFAS 105, par. 17 (AC F25.112); AAG, pars. 4.54 and 4.90; SOP 92-6, par. 54]  | _____      | _____     | _____      |
| 2. Do the disclosures noted in Steps 1a and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?<br>[SFAS 105, par. 17 as amended by SFAS 119, par. 14(d) (AC F25.112A); AAG, pars. 4.54 and 4.90; SOP 92-6, par. 54] | _____      | _____     | _____      |
| 3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:   |            |           |            |
| a. The amount of accounting loss the plan would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the plan?   | _____      | _____     | _____      |
| b. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?<br>[SFAS 105, par. 18 as amended by FASB 119, par. 14 (AC F25.113); AAG, pars. 4.54 and 4.90, SOP 92-6, par. 54]  | _____      | _____     | _____      |
| 4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:   |            |           |            |
| a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?  | _____      | _____     | _____      |
| b. The amount of the accounting loss due to credit risk the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?  | _____      | _____     | _____      |
| c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?<br>[SFAS 105, par. 20 (AC F25.115); AAG, pars. 4.54 and 4.90; SOP 92-6, pars. 54 and 56]  | _____      | _____     | _____      |

**NOTE:** For plans with less than \$150 million in total assets in the current "Statement of Net Assets Available for Benefits," the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107), together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the "Statement of Net Assets Available for Benefits," disclosed either in the body of the financial statements or in the accompanying notes? <sup>4,5</sup><br>[SFAS 107, par. 10 as amended by SFAS 119, par. 115a-b (AC F25.115C); AAG, pars. 4.54, 4.55, 4.91 and 4.92; SOP 92.6, pars. 54 and 55] | _____      | _____     | _____      |
| 6. Do the disclosures noted in step 5. distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? <sup>5</sup><br>[SFAS 107, par. 10 as amended by SFAS 119, par. 15c (AC F25.115C)]   | _____      | _____     | _____      |
| 7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?<br>[SFAS 107, par. 10 (AC F25.115C)]  | _____      | _____     | _____      |
| 8. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:  |            |           |            |
| a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?   | _____      | _____     | _____      |
| b. The reasons why it is not practicable to estimate fair value?<br>[SFAS 107, par. 14 (AC F25.115J)]  | _____      | _____     | _____      |
| 9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the organization, in disclosing the fair value of a derivative financial instrument, <i>not</i> : <sup>5</sup>  |            |           |            |
| a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?  | _____      | _____     | _____      |
| b. Net the fair value with the fair value of other derivative financial instruments?<br>[SFAS 107, par. 13 as amended by SFAS 119, par. 15d (AC F25.115I)]   | _____      | _____     | _____      |
| 10. For all fiscal years subsequent to the year of transition, are SFAS 105 and SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes?<br>[SFAS 105, par. 22; SFAS 107, par. 17]   | _____      | _____     | _____      |
| <b>N. Derivatives</b> (SFAS 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than \$150 million in total assets. For those plans, this Statement is effective for financial statements issued for fiscal years ending after December 15, 1995)  |            |           |            |
| 1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off balance sheet risk, are the following disclosures made by category of financial instrument:   |            |           |            |
| a. The face or contract amount (or notional principal amount if there is no face or contract amount)?  | _____      | _____     | _____      |
| b. The nature and terms, including a discussion of:  |            |           |            |
| (1) Credit and market risk?  | _____      | _____     | _____      |
| (2) Cash requirements?   | _____      | _____     | _____      |
| (3) Related accounting policy as required by APB 22?   | _____      | _____     | _____      |

<sup>4</sup> If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

<sup>5</sup> If the plan has not adopted SFAS 119, the requirement to disclose related carrying amounts (described in Step 5.) and the disclosure requirements described in footnote 4 to Step 5, and in Steps 6. and 9. should be disregarded.



|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:   |            |           |            |
| (1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?  | _____      | _____     | _____      |
| (2) Purposes other than trading?<br>[SFAS 119, pars. 8 and 9; AAG, pars. 4.56, 4.57, 4.93 and 4.94; SOP 92-6, pars. 56 and 57]   | _____      | _____     | _____      |
| 2. Does a plan that holds or issues derivative financial instruments for trading purposes disclose:  |            |           |            |
| a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?   | _____      | _____     | _____      |
| b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the statement of changes in the net assets available for benefits: |            |           |            |
| (1) If the disaggregation is other than by class, did the [entity] also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?  | _____      | _____     | _____      |
| c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets (this disclosure is encouraged but not required)?<br>[SFAS 119, par. 10]  | _____      | _____     | _____      |
| 3. Does a plan that holds or issues derivative financial instruments for purposes other than trading disclose:   |            |           |            |
| a. A description of:   |            |           |            |
| (1) The objectives for holding or issuing?   | _____      | _____     | _____      |
| (2) The context needed to understand those objectives?   | _____      | _____     | _____      |
| (3) The strategies for achieving those objectives?   | _____      | _____     | _____      |
| (4) The classes of derivative financial instruments used?  | _____      | _____     | _____      |
| b. A description of how each class of derivative financial instrument is reported in the financial statements, including:  |            |           |            |
| (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?  | _____      | _____     | _____      |
| (2) When recognized, where the instruments and related gains and losses are reported?  | _____      | _____     | _____      |
| c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:   |            |           |            |
| (1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?  | _____      | _____     | _____      |
| (2) A description of the classes of derivative financial instruments used to hedge?  | _____      | _____     | _____      |
| (3) The amount of explicitly deferred hedging gains and losses?  | _____      | _____     | _____      |
| (4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses?<br>[SFAS 119, par. 11]  | _____      | _____     | _____      |
| 4. Are the following encouraged, but not required, quantitative disclosures made:  |            |           |            |
| a. Interest rate?  | _____      | _____     | _____      |
| b. Foreign exchange?   | _____      | _____     | _____      |

|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Commodity price?   | _____      | _____     | _____      |
| d. Other market risks consistent with management's strategies?  | _____      | _____     | _____      |
| e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? <sup>6</sup><br>[SFAS 119, pars. 12 and 13]  | _____      | _____     | _____      |
| <b>O. Risks and Uncertainties</b> (SOP 94-6, <i>Disclosure of Certain Significant Risks and Uncertainties</i> , is effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which this SOP is to be first applied. Early application is encouraged but not required.)   |            |           |            |
| 1. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements?<br>[SOP 94-6, par. 11]   | _____      | _____     | _____      |
| 2. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that the following criteria is met?  | _____      | _____     | _____      |
| a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.<br><br><b>Note:</b> Step 10 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Step 7 above and AAG par. 13.25. | _____      | _____     | _____      |
| b. The effect of the change would be material to the financial statements.<br>[SOP 94-6, par. 13]   | _____      | _____     | _____      |
| 3. Does the disclosure in Step 2 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?<br>[SOP 94-6, par. 14]   | _____      | _____     | _____      |
| 4. If the estimate in Step 2 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made?<br>[SOP 94-6, par. 14]   | _____      | _____     | _____      |
| 5. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered?<br>[SOP 94-6, pars. 14 and 15]  | _____      | _____     | _____      |
| 6. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met?<br>[SOP 94-6, pars. 21 and 22]   | _____      | _____     | _____      |

<sup>6</sup> Suggested methods of disclosure of the above include:

- a. Additional details about current positions and period activity.
- b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- c. Gap analysis of interest rate repricing or maturity dates.
- d. Duration of financial instruments.
- e. The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- f. Any other helpful informative disclosures.

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <b>P. Other Matters</b>  |            |           |            |
| 1. Do the plan's financial statements provide information about plan resources and the manner in which the stewardship responsibility for those resources has been discharged?<br>[AAG, pars. 4.17 and 4.68; SOP 92-6, par. 18]  | _____      | _____     | _____      |
| 2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year?<br>[AAG, pars. 4.51 and 4.87c; SOP 92-6, par. 53]  | _____      | _____     | _____      |
| a. If the benefit obligations exceed the net assets of the plan, is the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, disclosed?<br>[AAG, pars. 4.51 and 4.87c; SOP 92-6, par. 53]   | _____      | _____     | _____      |
| b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions?<br>[AAG, pars. 4.51 and 4.87c; SOP 92-6, par. 53]   | _____      | _____     | _____      |
| c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed?<br>[AAG, pars. 4.51, fn. 37, and 4.87, fn. 48; SOP 92-6, par. 51, fn. 24]  | _____      | _____     | _____      |
| 3. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets?<br>[AAG, pars. 4.51 and 4.87d; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| 4. With respect to contracts with insurance companies that are excluded from plan assets, is consideration given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (e.g., coverage period and claims reported or claims incurred)? *<br>[AAG, par. 51; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| 5. Do disclosures include:   |            |           |            |
| a. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? *<br>[AAG, par. 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| b. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the plan administrator, employers, or employee organizations?<br>[AAG, pars. 4.51 and 4.87G; SOP 92-6, par. 51]   | _____      | _____     | _____      |
| 6. Do disclosures include the assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when the rate is expected to be achieved? *<br>[AAG, par. 4.51; SOP 92-6, par. 51] | _____      | _____     | _____      |
| 7. For health and welfare benefit plans providing postretirement health care benefits, is the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation disclosed? *<br>[AAG, par. 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| 8. Do disclosures include any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements? *<br>[AAG, par. 4.51; SOP 92-6, par. 51]   | _____      | _____     | _____      |

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\* See the note in FSP section 26,100.18.

|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| <b>Statement of Net Assets Available for Benefits</b>   |            |           |            |
| <b>A. General</b>   |            |           |            |
| 1. Do disclosures include restrictions, if any, on plan assets (e.g., legal restrictions on multiple trusts)?<br>[AAG, par. 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| <b>B. Investments</b>   |            |           |            |
| 1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or have been otherwise determined?<br>[AAG, pars. 4.25 and 4.72; SOP 92-6, par. 25]  | _____      | _____     | _____      |
| 2. Are the following investments reported as separate line items in the "Statements of Net Assets Available for Benefits":  |            |           |            |
| a. Government securities?   | _____      | _____     | _____      |
| b. Short-term securities?   | _____      | _____     | _____      |
| c. Corporate bonds?   | _____      | _____     | _____      |
| d. Common stocks?   | _____      | _____     | _____      |
| e. Mortgages?   | _____      | _____     | _____      |
| f. Real estate?   | _____      | _____     | _____      |
| g. Investments in bank common and commingled trust funds?   | _____      | _____     | _____      |
| h. Master trusts?   | _____      | _____     | _____      |
| i. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts?<br>[Generally Accepted]  | _____      | _____     | _____      |
| 3. Are investments that represent 5% or more of total plan assets separately identified in the financial statements or notes thereto?<br>[AAG, pars. 51 and 4.87f; SOP 92-6, par. 51]   | _____      | _____     | _____      |
| 4. If fully benefit-responsive investment contracts are held by a defined-contribution health and welfare plan, is the following information disclosed in the aggregate by investment option <sup>7</sup> :   | _____      | _____     | _____      |
| a. The average yield for each period for which a statement of net assets available for benefits is presented?   | _____      | _____     | _____      |
| b. The crediting interest rate as of the date of each statement of net assets available for benefits is presented?  | _____      | _____     | _____      |
| c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the creditworthiness of the contract issuer or third party guarantor)?   | _____      | _____     | _____      |
| d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107?  | _____      | _____     | _____      |
| e. The basis and frequency of determining crediting interest-rate resets and any minimum crediting interest rate under the terms of the contracts and any limitations on guarantees?  | _____      | _____     | _____      |
| f. For ERISA-covered plans in which a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500 but is reported in the financial statements at contract value and the contract value does not approximate fair value, a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500?<br>[SOP 94-4, pars. 15-16] | _____      | _____     | _____      |

<sup>7</sup> SOP 94-4 is effective for financial statements for plan years beginning after December 15, 1994, except that the application of this SOP to investment contracts entered into before December 31, 1993, is delayed to plan years beginning after December 15, 1995.

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <b>C. Contracts</b>  |            |           |            |
| 1. Are premium deposits and premium stabilization reserves reported as assets of the plan until such time as they are used to pay premiums?<br>[AAG, par 4.27; SOP 92-6, par. 27]  | _____      | _____     | _____      |
| 2. If the policy year does not coincide with the plan's fiscal year and it is probable that a refund is due and the amount can reasonably be determined and the refund is reported as a plan asset, is this fact disclosed?<br>[AAG, par 4.28; SOP 92-6, par. 28]  | _____      | _____     | _____      |
| 3. Is consideration given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (e.g., surrender charges and market value adjustments)?*<br>[AAG, par 4.51; SOP 92-6, par. 51]  | _____      | _____     | _____      |
| <b>D. Receivables</b>  |            |           |            |
| 1. Are the following contributions receivable separately identified and accrued as of the date of the financial statements:  |            |           |            |
| a. Receivables from employer(s)?   | _____      | _____     | _____      |
| b. Receivables from participants?  | _____      | _____     | _____      |
| c. Other sources of funding (i.e., state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements?<br>[AAG, par 4.26 and 4.73; SOP 92-6, par. 26]  | _____      | _____     | _____      |
| 2. Do contributions receivable include an allowance for uncollectible amounts?<br>[AAG, par 4.26; SOP 29-6, par. 26]   | _____      | _____     | _____      |
| <b>E. Cash</b>   |            |           |            |
| 1. Is separate disclosure made of restricted cash?<br>[ARB 43, Ch. 3A, par. 6 (AC B05.107)]  | _____      | _____     | _____      |
| <b>F. Property and Equipment</b>   |            |           |            |
| 1. Are plan assets used in plan operations (i.e., buildings, equipment, furniture and fixtures, and leasehold improvements) presented at cost less accumulated depreciation or amortization?<br>[AAG, pars. 4.30 and 4.74; SOP 92-6, par. 30]  | _____      | _____     | _____      |
| <b>Note:</b> SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of</i> , established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to assets to be held and used or disposed of. This standard is effective for financial statements for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted. |            |           |            |
| 2. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down?  | _____      | _____     | _____      |
| a. A description of the impaired assets and the facts and circumstances leading to the impairment.   | _____      | _____     | _____      |
| b. The amount of the impairment loss and how fair value was determined.  | _____      | _____     | _____      |
| c. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement.   | _____      | _____     | _____      |
| 3. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, are all of the following disclosed in financial statements that include a period during which those assets are held?   | _____      | _____     | _____      |

\* See the note in FSP section 26,100.18.



|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets.   | _____      | _____     | _____      |
| b. The loss resulting from the application of paragraph 15 of SFAS 121.  | _____      | _____     | _____      |
| c. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121.  | _____      | _____     | _____      |
| d. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the gains or losses in Steps b and c are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement.  | _____      | _____     | _____      |
| e. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified.<br>[SFAS 121, par. 19]   | _____      | _____     | _____      |
| 4. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes?<br>[SFAS 121, pars. 13 and 18]   | _____      | _____     | _____      |
| <b>G. Liabilities</b>  |            |           |            |
| 1. Are liabilities available for benefits (other than for benefits) deducted in arriving at net assets (including insurance premiums payable, accrued experience rating adjustments, claims, securities purchased, income taxes payable, and accumulated eligibility credits (including death benefits))?<br>[AAG, par. 4.31; SOP 92-6, par. 31] | _____      | _____     | _____      |

### Statement of Changes in Net Assets Available for Benefits

|   |       |       |       |
|---|-------|-------|-------|
| 1. Is the statement of changes in net assets available for benefits presented in enough detail to identify the significant changes during the year including, as applicable:  |       |       |       |
| a. Contributions from employers, segregated between cash and noncash contributions (a noncash contribution should be reported at fair value at the date of the contribution; the nature of noncash contributions should be described either parenthetically or in a note)?  | _____ | _____ | _____ |
| b. Contributions from participants, including those collected and remitted by the sponsor?  | _____ | _____ | _____ |
| c. Contributions from other identified sources (e.g., state subsidies or federal grants)?   | _____ | _____ | _____ |
| d. The net appreciation or depreciation in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined?<br><br><b>Note:</b> Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments is found in the notes to the financial statements.<br>[AAG, fns. 25 and 60; SOP 92-6, fn. 13] | _____ | _____ | _____ |
| e. Investment income, excluding the net appreciation or depreciation?   | _____ | _____ | _____ |
| f. Income taxes paid or payable, if applicable?*  | _____ | _____ | _____ |
| g. Payments of claims, excluding payments made by an insurance company pursuant to contracts that are excluded from plan assets?  | _____ | _____ | _____ |
| h. Payments of premiums to insurance companies to purchase contracts that are excluded from plan assets?  | _____ | _____ | _____ |

\* See the note in FSP section 26,100.18.

|   | Yes   | No    | N/A   |
|---|-------|-------|-------|
| i. Operating and administrative expenses?   | _____ | _____ | _____ |
| j. Other changes (such as transfers of assets to or from other plans), if significant?                                    | _____ | _____ | _____ |
| k. Changes during the period in liabilities for benefits by major types?<br>[AAG, pars. 4.32 and 4.84; SOP 92-6, par. 32] | _____ | _____ | _____ |

### Statements of Plan's Benefit Obligations \*

#### 1. Are the following health benefit obligations included at actuarial present value:

|  |       |       |       |
|--|-------|-------|-------|
| a. Claims payable and currently due for active and retired participants? | _____ | _____ | _____ |
| b. Premiums due under insurance arrangements?                            | _____ | _____ | _____ |
| c. Claims incurred but not reported to the plan for active participants? | _____ | _____ | _____ |

**Note:** Claims incurred by eligible participants but not yet reported to the plan (IBNR) may be computed in the aggregate for active participants and retirees. When the IBNR for retirees is not included in the postretirement benefit obligation, it may be included in claims incurred but not reported.  
[AAG, fn. 28; SOP 92-6, fn. 16]

|  |       |       |       |
|--|-------|-------|-------|
| d. Accumulated eligibility credits for active participants?  | _____ | _____ | _____ |
| e. Postretirement benefits for:  |       |       |       |
| (1) Retired participants, including their beneficiaries and covered dependents?                            | _____ | _____ | _____ |
| (2) Active or terminated participants who are fully eligible to receive benefits?                          | _____ | _____ | _____ |
| (3) Active participants not yet fully eligible to receive benefits?<br>[AAG, par. 4.34; SOP 92-6, par. 34] | _____ | _____ | _____ |

**Note:** Postretirement benefit obligations should be determined as of the end of the plan year or, if used consistently from year to year, as of a date not more than three months prior to that date, in accordance with paragraph 72 of SFAS No. 106.  
[AAG, fn. 29; SOP 92-6, fn. 17]

|  |       |       |       |
|--|-------|-------|-------|
| 2. If no obligation is included in premium deficit because the conditions in SOP 92-6 (fn. 19) are not met, or if an exposure to loss exists in excess of the amount accrued, is this fact disclosed, if it is reasonably possible that the loss or an additional loss has been incurred?<br>[AAG, par. 4.40; SOP 92-6, par. 40] | _____ | _____ | _____ |
| 3. If the plan provides for postretirement benefits to participants, is an estimated amount included in the benefit obligation?<br>[AAG, par. 4.42; SOP 92-6, par. 42]   | _____ | _____ | _____ |

### Statement of Changes in Plan's Benefit Obligations\*

#### A. General

|  |       |       |       |
|--|-------|-------|-------|
| 1. Are changes in benefit obligations within a plan period presented to identify significant factors affecting year-to-year changes in benefit obligations?<br>[AAG, par. 4.48; SOP 92-6, par. 48]   | _____ | _____ | _____ |
| 2. Are these changes presented in the body of the financial statements in categories of (a) claims payable and premiums due to insurance companies (b) IBNR and eligibility credits, and (c) post-retirement obligations?<br>[AAG, par. 4.48; SOP 92-6, par. 48] | _____ | _____ | _____ |

#### B. Minimum Disclosure Requirements Regarding Benefit Obligations

1. Is information provided with respect to:

\* See the note in FSP section 26,100.18.

|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Plan amendments?   | _____      | _____     | _____      |
| b. Changes in the nature of the plan (mergers or spinoffs)?   | _____      | _____     | _____      |
| c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)?<br>[AAG, par. 4.49; SOP 92-6, par. 49]  | _____      | _____     | _____      |
| 2. Are significant effects of other factors identified as, for example, benefits accumulated, the effect of the time value of money (for interest), and benefits paid?<br>[AAG, par. 4.49; SOP 92-6, par. 49] | _____      | _____     | _____      |
| <b>Note:</b> Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations.  |            |           |            |

## ERISA Reporting Requirements

### A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, the cash basis, or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards?  
[AAG, Appendix A]

\_\_\_\_\_

**Note:** Pursuant to DOL Reg. 29 CAR 2520.103-1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements.

[DOL Reg. 29 CAR 2520.104-46].

### B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements are filed under the "alternative method" pursuant to DOL Regulations section CFR 2520.103-1(a)(2), do the disclosures in the financial statements include:
  - a. A description of accounting principles and variances from GAAP?
  - b. A description of the plan, including significant changes in the plan and the effect of the changes on benefits?
  - c. The funding policy and changes in the funding policy from the prior year?
  - d. A description of material lease commitments, and other commitments and contingent liabilities?
  - e. A description of any agreements and transactions with persons known to be parties-in-interest?
  - f. A general description of priorities in the event of plan termination?
  - g. If applicable, whether a tax ruling or determination letter has been obtained?
  - h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500?  
[AAG, Appendix A]
2. For plans filing under both the statutory and alternative methods, are the following financial statements included and covered by the auditor's report:
  - a. Statement of plan assets by category at fair value and in comparative form for the beginning and end of the plan year?

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\_\_\_\_\_

\_\_\_\_\_

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| b. Separate or combined statements of plan income and expenses and of changes in net assets?<br>[AAG, App. A]  | _____      | _____     | _____      |
| 3. Pursuant to DOL regulations, are the following separate schedules included with the financial statements of the plan and covered by the auditor's report:   |            |           |            |
| a. Investment assets (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year) showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held? | _____      | _____     | _____      |
| b. Non-exempt transactions with parties-in-interest?   | _____      | _____     | _____      |
| c. Loans or fixed income obligations that are in default or uncollectible?   | _____      | _____     | _____      |
| d. Leases in default or uncollectible?   | _____      | _____     | _____      |
| e. Reportable transactions (i.e., transactions that exceed 3 percent (statute) or 5 percent (regulations) of the current value of plan assets at the beginning of the year)?<br>[AAG, Appendix A]  | _____      | _____     | _____      |

**Note:** Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year while plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the initial contribution to the plan.

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# FSP Section 26,400

## *Auditors' Reports Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

### .02 Explanation of References:

|         |   |
|---------|---|
| AAG =   | AICPA Audit and Accounting Guide, <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1995) |
| SAS =   | AICPA Statement on Auditing Standards   |
| AU =    | Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)   |
| SSARS = | AICPA Statement on Standards for Accounting and Review Services   |
| AR =    | Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)   |
| DOL =   | Department of Labor   |
| CFR =   | Code of Federal Regulations   |

### .03 Checklist Questionnaire

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Does the auditor's report include appropriate:  |            |           |            |
| a. Addressee?<br>[SAS 58, par. 9 (AU 508.09)]  | _____      | _____     | _____      |
| b. Date (or dual dates) of the report?<br>[SAS 1, sec. 530.05 (AU 530.05)]   | _____      | _____     | _____      |
| c. A title that includes the word independent?<br>[SAS 58, par. 8a (AU 508.08)]  | _____      | _____     | _____      |
| Note: DOL Regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.  |            |           |            |
| 2. If the auditor is not independent, is a compilation report that indicates lack of independence issued regardless of the extent of services provided?<br>[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)] | _____      | _____     | _____      |
| 3. Does the reporting language conform with the auditor's standard report on:  |            |           |            |
| a. Financial statements of a single year or period?  | _____      | _____     | _____      |
| b. Comparative financial statements?<br>[SAS 58, par. 8 (AU 508.08)]   | _____      | _____     | _____      |
| 4. Does the report include appropriate language for the following situations:  |            |           |            |
| a. Audited and unaudited financial statements are presented in comparative form?<br>[SAS 26, pars. 14—17 (AU 504.14—17)]   | _____      | _____     | _____      |
| b. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations?<br>[AAG, pars. 13.10—.18]  | _____      | _____     | _____      |
| Note: AAG includes additional auditor reports with respect to "financial statements of a trust" and "inadequate procedures to value investments."  |            |           |            |
| 5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:  |            |           |            |



|   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report?<br>[SAS 58, pars. 16—33 (AU 508.16—.33); AAG par. 13.31]<br><b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Uncertainties" for additional references to specific types of uncertainties.   | _____      | _____     | _____      |
| b. There is substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about the plan's ability to continue as a going concern"?<br>[SAS 64, par. 1 (AU 341.12—.13); AAG par. 13.38]   | _____      | _____     | _____      |
| c. There is a material change between periods in accounting principles or in the method of their application?<br>[SAS 58, pars. 34—36 (AU 508.34—.36)]  | _____      | _____     | _____      |
| d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed?<br>[SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and .81—.82)]   | _____      | _____     | _____      |
| e. The prior-period financial statements are audited by a predecessor auditor whose report is not presented?<br>[SAS 64, par. 2 (AU 508.83)]  | _____      | _____     | _____      |
| f. The auditor's opinion is based in part on the report of another auditor?<br>[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13); AAG 13.33]   | _____      | _____     | _____      |
| g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAP would result in a misleading presentation?<br>[SAS 58, pars. 14—15 (AU 508.14—.15)]  | _____      | _____     | _____      |
| h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?<br>[SAS 8, par. 4 (AU 550.04)]  | _____      | _____     | _____      |
| i. The auditor decides to emphasize a matter in the report?<br>[SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]<br><b>Note:</b> DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.  | _____      | _____     | _____      |
| 6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances?<br>[SAS 58, pars. 40—45 (AU 508.40—.45); SAS 19, par. 12 (AU 333.12); AAG par. 13.28]<br><b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion. | _____      | _____     | _____      |
| 7. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103—8, is a disclaimer of opinion expressed?<br>[AAG, pars. 13.25—.27]   | _____      | _____     | _____      |
| 8. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAP (including inadequate disclosure) is present?<br>[SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03); AAG par. 13.23]  | _____      | _____     | _____      |

|  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAP departures that could result in either a qualified or adverse opinion. |            |           |            |
| 9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified?<br>[SAS 58, pars. 39, 68—69, and 71 (AU 508.39, .68—.69, and .71)]                      | _____      | _____     | _____      |
| 10. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:  | _____      | _____     | _____      |
| a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?  | _____      | _____     | _____      |
| b. Specifically identify the accompanying information?   | _____      | _____     | _____      |
| c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?  | _____      | _____     | _____      |
| d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer?<br>[SAS 29, pars. 6—11 (AU 551.06—.11)]  | _____      | _____     | _____      |
| 11. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure-related matters noted in an audit? <sup>1</sup><br>[SAS 60, pars. 9—19 (AU 325.09—.19)]   | _____      | _____     | _____      |
| 12. Auditor's report requirements under DOL regulations:   |            |           |            |
| a. Is the auditor's report dated and manually signed?<br>[AAG (fn. 90)]  | _____      | _____     | _____      |
| b. Does it indicate the city and state where issued?<br>[AAG (fn. 90)]   | _____      | _____     | _____      |
| c. Does it identify the statements and schedules covered?<br>[AAG, Appendix A; 29 CFR 2520.103-2]  | _____      | _____     | _____      |
| d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?  | _____      | _____     | _____      |
| e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?  | _____      | _____     | _____      |
| f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles that have a material effect on the financial statements?  | _____      | _____     | _____      |
| g. State clearly any matters to which the auditor takes exception, the exception, and, to the extent practical, the effect of such matters on the related financial statements?<br>[29 CFR 2520.103-1(iv)]   | _____      | _____     | _____      |
| (1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations and (b) all others?<br>[DOL Regulations, sec. 29 CFR 2520]  | _____      | _____     | _____      |

<sup>1</sup> Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

# **FSP Section 26,500**

## ***Illustrative Financial Statements***

The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of an Employee Health and Welfare Benefit Plan assuming adoption of SOP 92—6.

.01

### **Independent Auditor's Report**

[Addressee]

We have audited the accompanying statements of net assets available for benefits of Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and the related statement of changes in net assets available for benefits for the year then ended, and statement of plan's benefit obligations as of December 31, 19X1, and the related statement of changes in plan's benefit obligations for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the plan as of December 31, 19X1 and 19X0, and the changes in its financial status for the year ended December 31, 19X1 in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

**Supplemental Schedules Relating to ERISA and DOL Regulations**

The following is an example of an additional paragraph required in the auditor's report on supplemental schedules required by ERISA and DOL.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## Limited-Scope Audits under DOL Regulations

### Independent Auditor's Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and for the years then ended, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 19X1 and 19X0, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

## ALLIED INDUSTRIES BENEFIT PLAN

.04

### Statements of Net Assets Available for Benefits <sup>1, 2</sup>

December 31, 19X1 and 19X0

| Assets   | <u>19X1</u>               | <u>19X0</u>               |
|--|---------------------------|---------------------------|
| Investments, at fair value                         |                           |                           |
| U.S. government securities .....                   | \$5,000,000               | \$4,000,000               |
| Corporate bonds and debentures .....               | 2,000,000                 | 1,600,000                 |
| Common stock .....                                 | 1,000,000                 | 600,000                   |
| Total investments .....                            | <u>8,000,000</u>          | <u>6,200,000</u>          |
| Receivables  |                           |                           |
| Participating employers' contributions .....       | 500,000                   | 430,000                   |
| Participants' contributions .....                  | 100,000                   | 80,000                    |
| Accrued interest and dividends .....               | 50,000                    | 40,000                    |
| Total receivables .....                            | <u>650,000</u>            | <u>550,000</u>            |
| Cash .....   | <u>140,000</u>            | <u>115,000</u>            |
| Total Assets .....                                 | <u>8,790,000</u>          | <u>6,865,000</u>          |
| Liabilities  |                           |                           |
| Due to broker for securities purchased .....       | 250,000                   | 240,000                   |
| Accounts payable for administrative expenses ..... | 25,000                    | 25,000                    |
| Total Liabilities .....                            | <u>275,000</u>            | <u>265,000</u>            |
| Net Assets Available for Benefits .....            | <u><u>\$8,515,000</u></u> | <u><u>\$6,600,000</u></u> |

The accompanying notes are an integral part of the financial statements.

<sup>1</sup> These financial statements are to be used for guidance purposes only. They represent sample financial statements for one health and welfare benefit plan and do not contain all disclosures required by GAAP

<sup>2</sup> A multiemployer plan that displays the benefit obligation information in separate financial statements. Illustration assumes the adoption of SOP 92-6.

## ALLIED INDUSTRIES BENEFIT PLAN

.05

### Statement of Changes in Net Assets Available for Benefits <sup>3</sup>

Year Ended December 31, 19X2

#### Additions

##### Contributions

|                               |                   |
|-------------------------------|-------------------|
| Participating employers ..... | \$15,000,000      |
| Participants .....            | <u>3,000,000</u>  |
| Total contributions .....     | <u>18,000,000</u> |

#### Investment income

|   |                   |
|---|-------------------|
| Net appreciation in fair value of investments ..... | 300,000           |
| Interest .....                                      | 500,000           |
| Dividends .....                                     | <u>50,000</u>     |
| Total investment income .....                       | 850,000           |
| Less—investment expenses .....                      | <u>15,000</u>     |
| Net investment income .....                         | <u>835,000</u>    |
| Total Additions .....                               | <u>18,835,000</u> |

#### Deductions

##### Benefits paid to participants

|                               |                   |
|-------------------------------|-------------------|
| Health care .....             | 16,000,000        |
| Disability and death .....    | <u>770,000</u>    |
| Total benefits paid .....     | 16,770,000        |
| Administrative expenses ..... | <u>150,000</u>    |
| Total Deductions .....        | <u>16,920,000</u> |

|                                |           |
|--------------------------------|-----------|
| Net Increase During Year ..... | 1,915,000 |
|--------------------------------|-----------|

#### Net assets available for benefits

|                         |                     |
|-------------------------|---------------------|
| Beginning of year ..... | <u>6,600,000</u>    |
| End of year .....       | <u>\$ 8,515,000</u> |

The accompanying notes are an integral part of the financial statements.

<sup>3</sup> A multiemployer plan that displays the benefit obligation information in separate financial statements. Illustration assumes the adoption of SOP 92-6.

## ALLIED INDUSTRIES BENEFIT PLAN

.06

### Statement of Plan's Benefit Obligations<sup>4</sup>

December 31, 19X1

|   |                     |
|---|---------------------|
| Amounts currently payable to or for participants, beneficiaries, and dependents       |                     |
| Health claims payable .....   | \$ 1,100,000        |
| Death and disability benefits payable .....   | 100,000             |
|   | <u>1,200,000</u>    |
| Other obligations for current benefit coverage, at present value of estimated amounts |                     |
| Claims incurred but not reported .....  | 350,000             |
| Accumulated eligibility credits .....   | 200,000             |
| Long-term disability benefits .....   | 800,000             |
|   | <u>1,350,000</u>    |
| Total obligations other than postretirement benefit obligations .....                 | <u>2,550,000</u>    |
| Postretirement benefit obligations  |                     |
| Current retirees .....  | 3,900,000           |
| Other participants fully eligible for benefits .....                                  | 2,100,000           |
| Other participants not yet fully eligible for benefits .....                          | 5,000,000           |
|   | <u>11,000,000</u>   |
| Plan's Total Benefit Obligations .....  | <u>\$13,550,000</u> |

The accompanying notes are an integral part of the financial statements.

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<sup>4</sup> A multiemployer plan that displays the benefit obligation information in separate financial statements. Illustration assumes the adoption of SOP 92-6.



## ALLIED INDUSTRIES BENEFIT PLAN

.07

### Statement of Changes in Plan's Benefit Obligations<sup>5</sup>

#### Year Ended December 31, 19X1

|   |                             |
|---|-----------------------------|
| Amounts currently payable to or for participants, beneficiaries, and dependents       |                             |
| Balance at beginning of year .....  | \$ 1,050,000                |
| Claims reported and approved for payment .....  | 16,920,000                  |
| Claims paid (including disability) .....  | <u>(16,770,000)</u>         |
| Balance at end of year .....  | <u>1,200,000</u>            |
| Other obligations for current benefit coverage, at present value of estimated amounts |                             |
| Balance at beginning of year .....  | 1,000,000                   |
| Net change during year:   |                             |
| Long-term disability benefits .....   | 315,000                     |
| Other .....   | <u>35,000</u>               |
| Balance at end of year .....  | <u>1,350,000</u>            |
| Total obligations other than postretirement benefit obligations                       | <u>2,550,000</u>            |
| Postretirement benefit obligation   |                             |
| Balance at beginning of year .....  | 9,665,000                   |
| Increase (decrease) during the year attributable to:                                  |                             |
| Benefits earned and other changes .....   | 1,250,000                   |
| Plan amendment .....  | <u>(175,000)</u>            |
| Changes in actuarial assumptions .....  | <u>260,000</u>              |
| Balance at end of year .....  | <u>11,000,000</u>           |
| Plan's Total Benefit Obligations at End of Year .....                                 | <u><u>\$ 13,550,000</u></u> |

The accompanying notes are an integral part of the financial statements.

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<sup>5</sup> A multiemployer plan that displays the benefit obligation information in a separate financial statement. Illustration assumes the adoption of SOP 92-6.

## ALLIED INDUSTRIES BENEFIT PLAN

.08

### Notes to Financial Statements

#### Note 1: Description of Plan

The following description of the Allied Industries Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

**General.** The Plan provides health and other benefits covering all participants in the widgets industry in the Greater Metropolis area. The Plan and related trust were established on May 8, 1966, pursuant to a collective bargaining agreement between the Allied Employers' Trade Association and the Allied Union, Local 802. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Benefits.** The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term, disability benefits, and death benefits to full-time participants (with at least 450 hours of work in the industry during a consecutive three-month period) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age sixty-two and have fifteen years of service with participating employers before retirement.

The Plan also provides health benefits to participants during periods of unemployment, provided they have accumulated in the current year or in prior years credit amounts (expressed in hours) in excess of the hours required for current coverage. Accumulated eligibility credits equal to one year's coverage may be carried forward.

Health, disability, and death claims of active and retired participants, dependents, and beneficiaries are processed by the Administrator Group, but the responsibility for payments to participants and providers is retained by the Plan.

In 19X1 the board of trustees amended the Plan to increase the deductible under major medical coverage from \$100 to \$300 and to extend dental coverage to employees retiring after December 31, 19X2. The amendment will not affect participating employers' contributions to the Plan in 19X2 under the current collective bargaining agreement.

**Contributions.** Participating employers contribute 5.5 percent of wages pursuant to the current collective bargaining agreement between employers and the union (expiring February 19, 19X5). Employees and retirees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents.

**Other.** The Plan's board of trustees, as Sponsor, has the right under the Plan to modify the benefits provided to active employees. The Plan may be terminated only by joint agreement between industry and union, subject to the provisions set forth in ERISA.

## Note 2: Summary of Accounting Policies

**A. Valuation of Investments.** The Plan's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Plan's board of trustees has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

**B. Postretirement Benefits.** The postretirement benefit obligation represents the total actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with the participating employers. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service in the industry rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1.

|                                |                                    |
|--------------------------------|------------------------------------|
| Weighted-average discount rate | 8.0%                               |
| Average retirement age         | 60                                 |
| Mortality                      | 1971 Group Annuity Mortality Table |

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

**C. Other Plan Benefits.** Plan obligations at December 31 for health claims incurred by active participants but not reported at that date, for accumulated eligibility of participants, and for future disability payments to members considered permanently disabled at December 31 are estimated by the Plan's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of the Plan's benefit obligations at present value, based on an 8.0 percent discount rate. Health claims incurred by retired participants but not reported at year end are included in the postretirement benefit obligation.

### Note 3: Benefit Obligations

The Plan's deficiency of net assets over benefit obligations at December 31, 19X1, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current bargaining agreement. It is expected that the deficiency will be funded through future increases in the collectively bargained contribution rates.

The weighted-average health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligation as of December 31, 19X1, by \$2,600,000.

### Note 4: Investments

The Plan's investments are held by a bank-administered trust fund. During 19X1 and 19X0 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 and \$200,000, respectively, as follows:

|  | 19X1  |                              | 19X0  |                              |
|--|---|------------------------------|---|------------------------------|
|  | Net<br>Increase<br>(Decrease)<br>in Value<br>During<br>Year | Fair Value at<br>End of Year | Net<br>Increase<br>(Decrease)<br>in Value<br>During<br>Year | Fair Value at<br>End of Year |
| Fair value as determined by quoted market price:     |   |                              |   |                              |
| U.S. government securities .....                     | \$200,000   | \$5,000,000                  | \$ (75,000)   | \$4,000,000                  |
| Corporate bonds and debentures .....                 | (25,000)  | 1,750,000                    | 50,000  | 1,375,000                    |
| Common stocks .....                                  | 100,000   | 1,000,000                    | 200,000   | 600,000                      |
|  | <u>275,000</u>  | <u>7,750,000</u>             | <u>175,000</u>  | <u>5,975,000</u>             |
| Fair value as estimated by Plan's board of trustees: |   |                              |   |                              |
| Corporate bonds .....                                | 25,000  | 250,000                      | 25,000  | 225,000                      |
|  | <u>\$300,000</u>  | <u>\$8,000,000</u>           | <u>\$200,000</u>  | <u>\$6,200,000</u>           |

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

|   | 19X1      | 19X0      |
|---|-----------|-----------|
| Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount) ..... | \$475,000 | \$450,000 |
| ABC Company common stock (2,000 shares) .....                             | 500,000   | 450,000   |
| U.S. Treasury bond, 8.5% due 19X6 (\$360,000 face amount) .....           |           | 350,000   |

### Note 5: Other Matters

The trust established under the Plan to hold the Plan's assets is intended to qualify pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the Plan, as amended, continues to qualify and to operate in accordance with applicable provisions of the internal revenue code.

**Note 6: Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

|  | <i>December 31</i> |                    |
|--|--------------------|--------------------|
|  | <i>19X1</i>        | <i>19X0</i>        |
| Net assets available for benefits per the financial statements                       | \$8,515,000        | \$6,600,000        |
| Benefit obligations currently payable (health claims, death and disability benefits) | <u>1,200,000</u>   | <u>1,050,000</u>   |
| Net assets available for benefits per Form 5500                                      | <u>\$7,315,000</u> | <u>\$5,550,000</u> |

The following is a reconciliation of benefits paid to participants per the financial statements to Form 5500:

|  | <i>Year ended<br/>December 31, 19X1</i> |
|--|---|
| Benefits paid to participants per the financial statements | \$16,770,000                            |
| Add: Amounts currently payable at December 31, 19X1        | 1,200,000                               |
| Less: Amounts currently payable at December 31, 19X0       | <u>(1,050,000)</u>                      |
| Benefits paid to participant per Form 5500                 | <u>\$16,920,000</u>                     |

Amounts currently payable to or for participants, dependents and beneficiaries are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

## CLASSIC ENTERPRISES BENEFIT PLAN

### .09                      Statements of Benefit Obligations and Net Assets Available for Benefits <sup>6</sup>

December 31, 19X1 and 19X0

|  | <u>19X1</u>         | <u>19X0</u>         |
|--|---------------------|---------------------|
| <b>Benefit Obligations</b>   |                     |                     |
| Amounts due insurance companies .....                                      | \$ 1,200,000        | \$ 1,000,000        |
| Postretirement benefit obligations .....                                   | <u>11,000,000</u>   | <u>9,665,000</u>    |
| Total benefit obligations .....  | <u>12,200,000</u>   | <u>10,665,000</u>   |
| <b>Net Assets</b>  |                     |                     |
| <b>Assets</b>  |                     |                     |
| Investments at fair value  |                     |                     |
| U.S. government securities .....   | 5,000,000           | 4,000,000           |
| Corporate bonds and debentures .....                                       | 2,000,000           | 1,600,000           |
| Common stock .....   | <u>1,000,000</u>    | <u>600,000</u>      |
| Total investments .....  | <u>8,000,000</u>    | <u>6,200,000</u>    |
| Receivables  |                     |                     |
| Sponsor's contributions .....  | 500,000             | 430,000             |
| Participants' contributions .....  | 100,000             | 80,000              |
| Accrued interest and dividends .....                                       | <u>50,000</u>       | <u>40,000</u>       |
| Total receivables .....  | <u>650,000</u>      | <u>550,000</u>      |
| Cash .....   | 75,000              | 60,000              |
| Insurance premium deposits .....   | <u>65,000</u>       | <u>55,000</u>       |
| Total Assets .....   | <u>8,790,000</u>    | <u>6,865,000</u>    |
| <b>Liabilities</b>   |                     |                     |
| Due to broker for securities purchased .....                               | 250,000             | 240,000             |
| Accounts payable for administrative expenses .....                         | <u>25,000</u>       | <u>25,000</u>       |
| Total Liabilities .....  | <u>275,000</u>      | <u>265,000</u>      |
| Net Assets Available for Benefits .....                                    | <u>8,515,000</u>    | <u>6,600,000</u>    |
| Excess of Benefit Obligations Over Net Assets Available for Benefits ..... | <u>\$ 3,685,000</u> | <u>\$ 4,065,000</u> |

The accompanying notes are an integral part of the financial statements.

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<sup>6</sup> Single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information. Illustration assumes the adoption of SOP 92-6.

# **CLASSIC ENTERPRISES BENEFIT PLAN**

## **.10 Statement of Changes in Benefit Obligations and Net Assets Available for Benefits <sup>7</sup>**

**Year Ended December 31, 19X1**

**Net Increase in Benefit Obligations**

Increase (Decrease) during the year attributable to:

|   |                  |
|---|------------------|
| Benefits earned and other changes .....               | \$ 1,510,000     |
| Additional amounts payable to insurance company ..... | 200,000          |
| Plan amendment .....                                  | <u>(175,000)</u> |
|   | <u>1,535,000</u> |

**Net Increase in Net Assets Available for Benefits**

Additions

Contributions

|                           |                   |
|---------------------------|-------------------|
| Sponsor .....             | 15,000,000        |
| Participants .....        | <u>3,000,000</u>  |
| Total contributions ..... | <u>18,000,000</u> |

Investment income

|   |               |
|---|---------------|
| Net appreciation in fair value of investments ..... | 300,000       |
| Interest .....                                      | 500,000       |
| Dividends .....                                     | <u>50,000</u> |

850,000

|                                |               |
|--------------------------------|---------------|
| Less investment expenses ..... | <u>15,000</u> |
|--------------------------------|---------------|

|                             |                |
|-----------------------------|----------------|
| Net investment income ..... | <u>835,000</u> |
|-----------------------------|----------------|

|                       |                   |
|-----------------------|-------------------|
| Total Additions ..... | <u>18,835,000</u> |
|-----------------------|-------------------|

Deductions

Insurance premiums paid for health benefits, net of experience-rating adjustments of

|   |            |
|---|------------|
| \$250,000 for 19X0 received in 19X1 ..... | 16,035,000 |
|---|------------|

|  |                |
|--|----------------|
| Insurance premiums paid for death benefits ..... | <u>780,000</u> |
|--|----------------|

16,815,000

|                               |                |
|-------------------------------|----------------|
| Administrative expenses ..... | <u>105,000</u> |
|-------------------------------|----------------|

|                        |                   |
|------------------------|-------------------|
| Total Deductions ..... | <u>16,920,000</u> |
|------------------------|-------------------|

|                    |                  |
|--------------------|------------------|
| Net Increase ..... | <u>1,915,000</u> |
|--------------------|------------------|

|  |           |
|--|-----------|
| Decrease in excess of benefit obligations over net assets available for benefits ..... | (380,000) |
|--|-----------|

**Excess of Benefit Obligations Over Net Assets Available for Benefits**

|                         |                  |
|-------------------------|------------------|
| Beginning of year ..... | <u>4,065,000</u> |
|-------------------------|------------------|

|                   |                            |
|-------------------|----------------------------|
| End of year ..... | <u><u>\$ 3,685,000</u></u> |
|-------------------|----------------------------|

The accompanying notes are an integral part of the financial statements.

<sup>7</sup> Single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information. Illustration assumes the adoption of SOP 92-6.

## CLASSIC ENTERPRISES BENEFIT PLAN

.11

### Notes to Financial Statements

#### Note 1: Description of Plan

The following description of the Classic Enterprises Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

**General.** The Plan provides health and death benefits covering substantially all active and retired employees of Classic Enterprises (the Sponsor). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Benefits.** The Plan provides health benefits (medical, hospital, surgical, major medical, and dental) and death benefits to full-time employees of the Sponsor (with at least 1,000 hours of service each year) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health and death benefits provided they have attained at least age fifty-five and have at least ten years of service with the Sponsor.

Current health claims of active and retired participants and their dependents and beneficiaries are provided under group insurance contracts with ABC Carrier, which are experience rated after the anniversary dates of the policies (generally March 31). Death benefits are covered by a group-term policy with DEF Carrier.

**Contributions.** The Sponsor's policy is to contribute the maximum amounts allowed as a tax deduction by the Internal Revenue Code. Under present law, the Sponsor is not permitted to deduct amounts for future benefits to current employees and retirees.

Employees and retirees may contribute specified amounts, determined periodically by the Plan's insurance companies, to extend coverage to eligible dependents.

In 19X1 the Plan was amended to increase the deductible under major medical coverage from \$100 to \$300 and to extend dental coverage to employees retiring after December 31, 19X1. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 19X2.

**Other.** Although it has not expressed any intention to do so, the Sponsor has the right under the Plan to modify the benefits provided to active employees, to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

#### Note 2: Summary of Accounting Policies

**A. Valuation of Investments.** The Plan's investments are stated at fair value. Securities traded on the national securities exchanges are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Classic Enterprises Benefits Committee has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

**B. Plan Benefits.** The postretirement benefit obligation (see note 3) represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid to or for (i) currently retired employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with the Sponsor. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.



The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment. (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes at December 31, 19X1, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1 and 19X0.

|                                |                                    |
|--------------------------------|------------------------------------|
| Weighted-average discount rate | 8.0%                               |
| Average retirement age         | 60                                 |
| Mortality                      | 1971 Group Annuity Mortality Table |

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

### Note 3: Benefit Obligations

Health costs incurred by participants and their beneficiaries and dependents are covered by insurance contracts maintained by the Plan. It is the present intention of the Sponsor and the Plan to continue obtaining insurance coverage for benefits. As stated in note 1, the Sponsor is not permitted under present tax law to deduct amounts for future benefits (beyond one year). Insurance premiums for future years in respect of the Plan's postretirement benefit obligation will be funded by Sponsor contributions to the Plan in those later years.

The postretirement benefit obligation at December 31, 19X1 and 19X0, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

|  | <u>19X1</u>         | <u>19X0</u>        |
|--|---------------------|--------------------|
| Current retirees .....                                 | \$ 3,900,000        | \$3,500,000        |
| Other participants fully eligible for benefits .....   | 2,100,000           | 2,000,000          |
| Participants not yet fully eligible for benefits ..... | 5,000,000           | 4,165,000          |
|  | <u>\$11,000,000</u> | <u>\$9,665,000</u> |

The health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported. If the assumed rates increased by one percentage point in each year, that would increase the obligation as of December 31, 19X1 and 19X0, by \$2,600,000 and \$2,500,000 respectively.

**Note 4: Investments**

The Plan's investments are held by a bank-administered trust fund. During 19X1 and 19X0 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 and \$200,000, respectively, as follows:

|   | <u>19X1</u>   |                                      | <u>19X0</u>   |                                      |
|---|---|--------------------------------------|---|--------------------------------------|
|   | <u>Net Increase (Decrease)<br/>in Value During Year</u> | <u>Fair Value at<br/>End of Year</u> | <u>Net Increase (Decrease)<br/>in Value During Year</u> | <u>Fair Value at<br/>End of Year</u> |
| Fair value as determined by<br>quoted market price:                                     |   |                                      |   |                                      |
| U.S. government securities  | \$200,000   | \$ 5,000,000                         | \$ (75,000)   | \$4,000,000                          |
| Corporate bonds and<br>debentures   | (25,000)  | 1,750,000                            | 50,000  | 1,375,000                            |
| Common stocks   | 100,000   | 1,000,000                            | 200,000   | 600,000                              |
|   | <u>275,000</u>  | <u>7,750,000</u>                     | <u>175,000</u>  | <u>5,975,000</u>                     |
| Fair value as estimated by<br>Classic Enterprise Benefits<br>Plan Investment Committee: |   |                                      |   |                                      |
| Corporate bonds   | 25,000  | 250,000                              | 25,000  | 225,000                              |
|   | <u>\$300,000</u>  | <u>\$ 8,000,000</u>                  | <u>\$200,000</u>  | <u>\$6,200,000</u>                   |

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

|   | <u>19X1</u> | <u>19X0</u> |
|---|-------------|-------------|
| Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount) ..... | \$475,000   | \$450,000   |
| ABC Company common stock (2,000 shares) .....                             | 500,000     | 450,000     |
| U.S. Treasury bond, 8.5% due 19X6 (\$360,000 face amount) .....           |             | 350,000     |

**Note 5: Other Matters**

The trust established under the Plan to hold the Plan's net assets is intended to qualify pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service and the Sponsor believes that the Plan, as amended, continues to qualify and to operate in accordance with applicable provisions of the internal revenue code.

**Note 6: Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

|  | <u>December 31</u> |                    |
|--|--------------------|--------------------|
|  | <u>19X1</u>        | <u>19X0</u>        |
| Net assets available for benefits per the financial statements | \$8,515,000        | \$6,600,000        |
| Amounts due insurance companies                                | 1,200,000          | 1,000,000          |
| Net assets available for benefits per Form 5500                | <u>\$7,315,000</u> | <u>\$5,600,000</u> |

The following is a reconciliation of insurance premiums paid for participants per the financial statements to Form 5500:

|  | <u>Year ended<br/>December 31, 19X1</u> |
|--|---|
| Insurance premiums paid per the financial statements       | \$16,815,000                            |
| Add: Amounts due insurance companies at December 31, 19X1  | 1,200,000                               |
| Less: Amounts due insurance companies at December 31, 19X0 | (1,000,000)                             |
| Insurance premiums paid for participants per Form 5500     | <u>\$17,015,000</u>                     |

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